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TAGS: [ECON](#) [ENRG](#) [EPET](#) [IR](#) [IZ](#)
SUBJECT: IRAQ-IRAN PIPELINE PROJECT AND OIL/FUEL SWAP

Classified By: ECONOMIC MINISTER-COUNSELOR DANIEL WEYGANDT, REASONS 1.4
(b)(d)

[¶1.](#) (C) In an April 21 meeting, the State Oil Marketing Organization's head of the Crude Oil Marketing Commission told econoffs that he was under pressure to conclude a contract with Iran to swap crude oil for refined fuel products. The contract stems from Memoranda of Agreement signed by Oil Minister Husayn Shahrستاني and his predecessor, Ibrahim Bahr al Uloum. The Memoranda also call for the construction of a pipeline from southern Iraq to the Iranian refinery at Abadan. Prior to installing the pipeline, the commission head said that the crude oil and product would be shipped by truck. He added that Iran was aggressively seeking a "very cheap" price for the crude. Econoffs familiar with circumstances at the time of the memoranda negotiations stated that Shahrستاني pressured SOMO to include a crude oil price substantially below market value in the agreement. One SOMO official claimed that when he refused to put the lower numbers in several drafts of the agreement, Shahrستاني simply lined out the market prices and entered the lower values.

[¶2.](#) (C) Comment: The deal makes no sense on a purely commercial basis. Iran does not have adequate refinery capacity to meet domestic demand for fuel. It therefore cannot refine the Iraqi crude and cannot produce the refined product to fulfill its half of the swap. Iran would have to export the crude and import additional refined product for Iraq. Iraq directly exporting the crude and directly importing the refined product would be a more efficient transaction. The low price is the only logical explanation for the deal, and that price would appear to have more illegal opportunity than valid economic rationale.
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